The Money and Banking Mess

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This is the first half of another installment in *The American Mercury's* series on money

ALTHOUGH philosophers, scientists, statesmen, economists, theologians, and many others have never been able to entirely, or permanently, agree upon a single, simple, definition for money, the common definitions usually combine these thoughts: MONEY IS A MEDIUM OF EXCHANGE: A STORE OF WEALTH: AND A MEASURE OF VALUE.

As a medium of exchange, money once was of enormous importance, but since the invention of instantaneous, world-wide communication and the advent of miles-a-minute transportation, money substitutes such as bank checks, drafts, and telegraphic transfers accommodate the bulk of modern transactions. The "medium of exchange" function, particularly in the U.S.A., has become insignificant.

As a store of wealth, money can serve the function *only* if it preserves its purchasing power. So long as the purchasing power is preserved by public faith that there is only a limited amount of such money in existence, it ably serves the value-storing function. However, as soon as money comes to owe its purchasing power to the fact that it consists of an intrinsically valuable substance, its function as money is eclipsed by the *commodity value* of the substance of which it is composed. Then it becomes a "bartering material" and disappears as "money." In disappearing, it contracts the Money Quantity of the system from which it withdraws.

Next to allowing fractional reserve public banking, the worst monetary crime a government can commit is to make its money interchangeable ("convertible") at a *priced-fixed rate with gold*.* Under such a treacherous system government abdicates its sovereign power over its money to private, and often foreign, interests. This amounts to issuance of a blanket license, to whomsoever can dominate the world gold market, to victimize the people through alternately inflating, and then deflating, a nation's Money Quantity. The inflation-deflation routine is easily suited to selfish designs, where gold is

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*No person can justly be denied the right to own, sell, or buy gold if he so desires: but the value of gold inside any monetary jurisdiction *must not be price-fixed*—if for no better reason than that a free-price gold market in a nation is the best insurance the people can have that their money is "good money" along side gold. Even more fundamental: THE VALUE OF GOLD SHOULD BE MEASURED BY MONEY; THE VALUE OF MONEY SHOULD *NOT* BE AT THE MERCY OF THE MAN-MANIPULATED PRICE OF GOLD.

price-fixed, by using dominance in the world gold market to alternately make the metal available in plenty, then make it scarce.

Money has been called the "vocabulary" by which men can express the finely shaded degree of their desires to possess *some* goods in relation to other goods ("goods" in the original sense of meaning *desirable* things). In spite of the vagueness of the definitions of money, it is proper to say *its chief function is to measure and express value*. No one has improved on the Lords Justices of England in the region of James I when they said:

" . . . in every commonwealth, it is necessary to have a standard of money, for no commonwealth can subsist without contracts, and no contracts without equality; and no equality in contracts without money."

Nor has anyone improved on the axiom left us by Montesquieu:

"As the measure of all things, *money, of all things, should be least subject to change*."

The Quantity of Money

Since the desires to possess things all originate with individual beings, the NUMBERS of such beings in the community account for the aggregate sum ply. It follows that as the population increases, or decreases, the money of the community will cease to be a *constant measure of value* unless the QUANTITY of it in use is increased or decreased in proportion to the population changes. That kind of thinking has been common since ancient times. However except for a remarkable stretch of some 800 years in Byzantium, when the Greeks maintained a well regulated money system, it has been only rarely and for short intervals that men have enjoyed a money which was a durable and equitable measure.

The relative scarcity of copper, silver and gold and the difficulty of causing a large, or sudden, change in the quantities of them in men's possession, long made those metals the favorite substances from which to fashion money. It was the relative scarcity, rather than the superiority for use not deriving from scarcity, which made them "precious metals." The scarcity was useful in limiting the *quantity of money* into which they were coined to a gradual, though haphazard annual increase.

Until the practices of long-term borrowing and receipts-in-lieu-of-metal became common, the metallic coins played a large role in the advancement of civilization. At the same time, the age old tricks of clipping, adulterating, and otherwise defrauding by misuse of metals, along with the difficulties and hazards of transporting them over land and sea, left them far from ideal for use as money. So in time there evolved the use of token money composed of intrinsically worthless substances such as leather, and wooden tally sticks. When the art of paper making found its way from Asia to Europe some six hundred years ago, the practice soon became widespread to use paper for receipts given by goldsmiths and other custodians for the precious metals left with them by owners for safekeeping. In a very short time these paper receipts were circulating from hand to hand, instead of the metal they represented. Hardly had receipts-in-lieu-of-metal begun to circulate as money when some dishonest warehousers of metals began to lend for pay, *receipts for metals they did not receive*—chancing that *not all* of the metal receipt holders would call for their own at the same time before the borrower of the bogus receipt had returned it. In that early secret thievery was born the modern institution of "fractional reserve public banking." Unlike the disrepute in which its initial practitioners were held, our latter day fractional reservists have been falsely propagandized into great esteem among us.

Value Depends on Quantity

Experience demonstrated generations ago, as already explained that the "money value" of money depends far less upon the substance of which it is made than upon the QUANTITY of it in use within a particular monetary jurisdiction. From that long experience a "theory" (LAW, actually) took shape in the minds of thoughtful men: money tends to gain in "money value" as the quantity in use is contracted; and tends to shrink in "money value," as its quantity is expanded. Sudden or prolonged quantity expansion we call "inflation"; contraction, "deflation."

When the framers of the United States Constitution were at work the fastest means of communication and transportation were men on horseback by land and sailing ships by sea. Fully recognizing the right and duty of the sovereign people to have unquestioned jurisdiction over the nation's money system they spelled out the power of Congress alone to "coin money, regulate the value thereof, and of foreign coin." That was before, as we have seen, money had ceased to be physically necessary in the exchanges of trade and commerce, and before the *"value"* of money had become equivalent in meaning with *"quantity"* of money. In other words, if we allow for the modern use of instantaneous, worldwide communication and miles-per-minute transportation, we must interpret Article I; Section 8; paragraph 5 of the Constitution as making it the power and the duty of Congress to "coin, that is create, print, mint, issue or make money and regulate the QUANTITY 'value' thereof."

In this day and age when the people no longer have either the opportunity or the wish to use gold as a "measure of value" it must become the urgent task of Congress to re-assert its control over the regulation of our nation's Money Quantity.

Americans have long since ceased to distinguish between "money in the pocket" and "money in the bank." They have been lulled into the belief that one place is the same as the other, not realizing that *fractional reserve public banking is an institutionalized lie.* Remember the total quantity of United States money in existence is less than $35 billion; yet the banks of the nation have deposit liabilities, that is *promises to pay,* of SIX TIMES $35 billion, viz *$210 billion!* To the American people their "money quantity" is not the just mentioned $35 billions. It is that $35 billions of *real* money, plus the $210 billions of "DEBT MONEY"; that *nonexistent* money (represented by banks' PROMISES-TO-PAY-MONEY to their depositors) which makes up the total which the credulous public has been coated into falsely regarding as "money equivalent."

For all practical purposes our "Mon-

	U.S. Direct Debt* ($ Billions)	Money Quantity (Total Deps. All Banks Plus Currency Outside Banks) ($ Billions)	Total Deposits All Banks ($ Billions)	Currency Outside Treas. & Outside Banks ($ Billions)	Population of U.S. ($ Billions)
1929	16.185	55.776	52.137	3.639	121.770
1933	22.538	42.029	37.268	4.761	125.579
1939	40.439	75.171	67.770	6.401	130.880
1941	48.961	90.637	81.022	9.615	133.203
1945	269.442	180.806	154.316	26.490(†)	139.586
1954	271.259	218.882	191.030	27.852(†)	162.417
1957	275.000	235.200	206.406	28.800(†)	173.000

***Does not include the many billions of indirect debt-guarantee of mortgages and farm products guaranty of government corporations.**

†Great sums of this currency are hoarded *outside* the United States: how much by USSR only the Kremlin knows. Possession of much of it *by foreigners is a direct consequence of global give-away program.*

ey Quantity" as of February 26, 1958, was \$232.200 billion of which only \$30.554 billion was currency in circulation outside the Treasury and outside banks. The rest was \$201.646 billion of DEBT MONEY or, in the contemporary jargon, deposit liabilities of the banking system. Those who wish to draw a distinction between allegedly "honorable" mid-twentieth century fractional reserve public banking and the secret thieveries of the old-time metal warehousers who invented the system cannot dispute the accuracy of the figures just cited.

A look at bank deposit and currency figures on the next page for a few crucial dates since just before the advent of the "New Deal" is most revealing:

This is not the place to embark upon a statistical analvsis of the relationships of population, debt, currency, and bank deposits, nor the dynamic impact upon prices which follow in the train of large prolonged changes in Money Quantity. Suffice here to say that the above simple, raw, figures are enough to demonstrate that the Money Quantity contraction from 1929 to 1933 coincided with the Great Depression, if indeed it did not cause that agonizing epoch (as most unbiased scholars contend). The figures clearly show that the growth of Money Quantity over the past 25 years has far outstripped the rate of population growth while the costs of living, along with almost all other free-market prices, have increased enormously. The wage earner who earned 50 cents an hour in 1933 might well ask the boss of his labor union what he now gains from \$1.50 an hour, three times as much as in 1933, when the dollar back there bought four times as much as now. On the other hand, it is pointless to blame *individuals* for our present political and economic plight. More intelligently we ought to be blaming the financial *institutions,* viz. *fractional reserve public banking* and its handmaiden, *debt-money, for the calamity which threatens soon to overwhelm our once impregnable Republic.*

Restoring Constitutionality

It is not yet too late to extricate our country from the grip of debt-money, but it cannot be done without meeting the evil institution of fractional reserve public banking in a *deliberate head-on collision.*

The only hope for salvation of the Republic and the restoration of the liberties we have progressively sacrificed with the passing of the past 25 years is that enough citizens, Democrats and Republicans — shoulder to shoulder, with petty differences and old prejudices laid aside until a less critical hour — will band together, go to the polls, and elect a Congress of Senators and Representatives wise enough, and brave enough, to tackle the job of restoring Constitutionality to our nation's money system. There are wise and good men in every one of the 49 states, and in both political parties, and in the South no less than in the North. *This country needs no party so much now as it needs a joint "Rescue Party" at work in the legislative branch of government.*

Our "dream-Congress," if that is what we must call it, would face many grave problems but it is hard to imagine one more vital to the welfare, yes, to the *survival,* even, of the nation than that of abolishing debt-money; and that job would be made the more difficult in the face of the enormous economic and political power commanded by the fractional reserve banking practitioners, themselves.

In all combat, if you know "the enemy" and where he resides, you have the makings of a battle plan. These two things we do know. The battle plan must be to get a wise and dedicated Congress. If enough citizens of the U.S.A. will just go about the business of being forthright Americans it can be done. That way lies our hope.